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C O N F I D E N T I A L SECTION 01 OF 02 JEDDAH 000557

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SUBJECT: NEW "KING ABDULLAH ECONOMIC CITY" ON THE RED SEA:
THE DUBAI OF THE FUTURE OR WHITE ELEPHANT?

REF: JEDDAH 497

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Classified By: Consul General Tatiana Gfoeller,
for reasons 1.4 (b) and (d).

11. (C) Summary: Among the Saudi Government's many new megaprojects, the planned \$26.7 billion "King Abdullah Economic City" has attracted the most media and investor attention. Its organizer, Saudi General Investment Chairman Amr Dabbagh, is pushing ahead. In a recent meeting, CG and EconCouns told Dabbagh the USG is interested in his project for two reasons: first, the commercial opportunities for US firms in building this city; second, the reforms that he will have to implement in order for this enormous infrastructure construction project to become a real city, and a real competitor to Dubai. End Summary.

AMBITIOUS URBAN PLANNING

12. (SBU) The Consul General and EconCouns met recently at the Jeddah offices of Amr Dabbagh, Chairman of the Saudi General Investment Authority (SAGIA), an independent SAG agency. Dabbagh is heading the US bilateral investment treaty effort (reftel); he is also in charge of large new infrastructure megaprojects for the Kingdom. The most prominent of these is the planned "King Abdullah Economic City," to be built approximately 80K north of Jeddah on the Red Sea coast at the small port of Rabigh, which currently holds a Saudi naval base, and a petrochemical complex (built and partly owned by the Japanese firm Sumitomo).

13. (SBU) Dabbagh sketched out his ambitious plans for the proposed King Abdullah city. The development plan (prepared by Stanford Research Associates of Palo Alto) calls for \$26.7 billion of total investment (of which the total SAG commitment is about \$7 billion to build the basic infrastructure.) Dabbagh sees the city as ultimately housing 1.7 million residents. It will include a sea port with the ability to moor mega-vessels and handle millions of TEUs each year, an international

airport and a financial center with 1,200 business hotel rooms and 60,000 square meters of convention center space and business hotels. The five million square meters of resort property will include 3,000 hotel rooms, an 18-hole championship golf course and yacht club. The residential areas will include a "town center" urban area with low-rise medium density apartments, a stylish sea-front area district, and luxury waterfront villas with private boat docks. Planners are creating "state of the art" sewer, power and desalination systems, and the city will have its own power grid. Planners have not designated a "diplomatic" quarter, but expect that consulates and diplomatic missions from Jeddah will relocate to the new city. Dabbagh has hired two US consulting firms to provide the urban and financial planning.

14. (SBU) The new city will also have an industrial center, building on the current Sumitomo complex, and a rail transport hub. Plastics and petrochemical industries will be industrial cornerstones of the new city, with neighboring cities and provinces, such as Yanbu, supplying raw materials that will be processed into final products. The Economic City will be part of a high-speed train system linking important cities such as Mecca and the current city of Jeddah. Planners hope that it will compete with Jeddah as an embarkation point for religious pilgrims fulfilling their "hajj" and "umra" to the Holy Cities of Mecca and Medina.

15. (SBU) The initial stage of construction that will start soon will include a sea port, the first phase of an industrial park focusing on light industry and R&D, two resorts, 1,500 homes surrounding a golf course, and approximately 6,000 apartments in the proposed "Red Sea Village" complex. Power and light are due

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to be switched on in September 2008.

NEW CITY AS "AGENT FOR CHANGE"

16. (SBU) Dabbagh stressed that the new city's success will require it to have its own separate legal regime, and he sees the city as an "agent of change" and catalyst for reforms for the rest of the country as well. SAGIA will act as the "front desk" of the new city, encouraging efficiency, eliminating bureaucratic hassles, and streamlining the process for business licenses and work visas, with a strong private sector business focus.

17. (SBU) An early indication of public support for the city was the initial public offering, in the first week of August, for shares in the development company "Emar Economic City," a joint venture between Emar Properties of Dubai and Saudi businesses (the Bin Laden Group most prominently). The IPO aimed to raise about \$700 million per Dabbagh, but was oversold and raised over \$1.5 billion from the Saudi public.

18. (SBU) The SAGIA planners of the city told the CG and ConGenOff in follow-up meetings that most residents will be Saudi nationals. Promotional literature and the official website (www.kingabdullahcity.com) show men in characteristic white "thobes" and Arab headdress and women in the all encompassing black "abaya." Success of the city is premised on the promise of Saudi Arabia's burgeoning population. Seventy five percent of the population is under age 30 and sixty percent is under age 21. The demand for housing in the Kingdom is expected to skyrocket in the next twenty years.

19. (C) City planners were vague when the CG asked what personal freedoms will be enjoyed by city residents.

Lifestyle limitations in the Kingdom include bans on alcohol, movie theaters, and public performances of music. Saudi law requires shops, restaurants and businesses to close their doors during the five daily prayer times. Mixed gender seating in public places is prohibited. Women are prohibited from driving automobiles or riding bicycles, and are obliged to wear the ubiquitous black "abaya" when in public.

COMMENT: CAN DABBAGH AVOID WHITE ELEPHANTIASIS?

¶10. (C) Saudi elites in business and government are watching Dabbagh's ambitious plans for the "new Dubai" as they call it, silently cheering on his reform agenda, but also handicapping his chances. They tell the Embassy and ConGen Jeddah Dabbagh brings two important assets to the table. First and foremost, he has King Abdullah's backing (witness the name of the new city). Second, Dabbagh is from a prominent Jeddah family and that city's merchant class (the country's single largest reform constituency) is his natural constituency. Some members of it have told the CG they are investing in this project enthusiastically.

¶12. (C) However, the Saudi elites remain skeptical of Dabbagh's ambitious plans, for several reasons. First, he has a very aggressive, go-it-alone style, reminiscent of his US business school training, which does not work well in this consensus-driven society, especially in the government, where he is perceived to have overridden the bureaucratic prerogatives of other agencies, including the Commerce and Finance Ministries. Second, we hear he has alienated at least parts of the Jeddah business community, his natural constituency, by pushing ahead with this new competitor to Jeddah before fully consulting them. But Dabbagh, with his American business school style, is pushing ahead, and we will continue to watch and report on his progress.
Gfoeller